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July 25, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton, Secretary
Federal Communications Commission
1919 M. Street, NW, Room 222
Washington, DC 20554

Re: Ex Parte Presentation
Revisions to Price Cap Rules for AT&T
CC Docket No. 93-197

Dear Mr. Caton:

As part of its review of the Price Cap rules for AT&T, the Commission is considering streamlining AT&T's Commercial Long Distance Service[1]. This letter provides additional information to supplement the record in this matter. Two copies of this letter are being submitted in accordance with Section 1.1206(a)(1) of the Commission's Rules.

In its order in CC Docket no. 90-132, the Commission found that "(w)ith minor exception... the business services market is substantially competitive "[2] and, as a result, streamlined its regulation of the majority of AT&T's business services. In reaching this conclusion, the Commission relied, in part, on its finding that the business marketplace exhibited substantial demand and supply elasticities, which limit AT&T's market power. The Commission also cited AT&T's market share for business services (about 50 percent at the time) as being "...not incompatible with a highly competitive market."[3]

These same conclusions compel the application of streamlined regulation to AT&T's Basket 1 Commercial services. Indeed, developments in the market since the Commission's 1991 decision establish beyond question the fiercely competitive nature of the market for these services, and confirm that price cap regulation of these services is unnecessary, counterproductive and contrary to the public interest.

[1]Notice of Proposed Rulemaking, In the Matter of Revisions to Price Cap Rules for AT&T, FCC 93-227, CC Docket No. 93-197 (Released July 23, 1993).

[2]In the Matter of Competition in the Interstate Interexchange Marketplace, para. 36, 6 FCC Rcd. 5880 (1991). ("Docket 90-132 Order").

[3]Docket 90-132 Order, para. 51.

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In making its decision to streamline AT&T's business services in CC Docket 90-132, the Commission relied in part on the significant competitiveness of the long distance market as demonstrated by a study of the available capacity of competitors. Since then, there has been continued growth in that capacity, as demonstrated by the Commission's most recent report, which shows that fiber route miles for all interexchange carriers have increased 20% since 1989, from approximately 80,000 route miles to almost 100,000 route miles.[4] Thus, the conclusion the Commission reached in Docket 90-132 regarding the ability of competitors to absorb market share quickly is even more compelling today, given the significant growth in capacity during the past three years since the Commission's Order.

That capacity is available and used for commercial long distance as much as for any other service. Indeed, customers for such services have become the focus of intense competitive efforts. AT&T, MCI, Sprint and others are constantly developing calling packages, advertising campaigns and price strategies aimed at small business customers. With AT&T's Partners in Business, MCI's Friends of the Firm, and Sprint's Business Clout, for example, customers for commercial long distance have many competitive choices. Recent market share data confirms that these customers are aware of and exercise their choice.

Continued price cap regulation of these services significantly distorts AT&T's ability to respond to competition for the business of these customers. Any AT&T tariff filing that would seek to introduce a "new" or "restructured" service must be filed on 45 days notice, resulting in needless delay for commercial customers and advance notice to AT&T's competitors, frequently enabling them to respond before AT&T's offer can become effective.

This is illustrated by a recent experience with AT&T's Commercial Long Distance Discount Plan, filed on January 14, 1994. Because of the advance notice required for the price cap tariff filing to introduce this offering, AT&T's chief competitor had sufficient time to respond preemptively in the market, leap-frogging AT&T's offer by rolling out its own offer before AT&T's could take effect. In response to this maneuver, AT&T filed additional tariff revisions to change its original offer, causing additional delay for customers and advance notice to AT&T's competitors. This real life experience is consistent with concerns the FCC expressed in Docket 90-132, in that AT&T is discouraged from being a market "first mover" and its competitors are content to be "reactors" because they have time to do so and still beat AT&T to market. This effectively limits the competitiveness in the market and thereby reduces the consumer benefits that would otherwise result.

In support of its decision to streamline business services, the Commission concluded that the business long distance market exhibited demand elasticity and customers " ...will

[4]FCC Report: "Fiber Deployment Update", Jonathan M. Kraushaar, Industry Analysis Division, May, 1994

switch carriers in order to obtain pricing savings and desired features."[5]. That decision now has received strong new support from a study provided by the Federal Trade Commission in its filing that supported streamlining AT&T's Commercial Long Distance Service.[6] FTC economist Michael Ward found that the entire group of AT&T's Basket 1 services exhibited similar competitive characteristics. Using an index of basic schedule rates, Ward found that the level of competition for all Basket 1 services matched closely that of the average market in the United States economy. The FTC study concluded that the market for AT&T's Basket 1 services is quite competitive and that there exists a high degree of substitutability between AT&T and its rivals' offers.

The decision AT&T seeks here is consistent with and supported by the analysis and conclusions of that study. Other evidence of available alternatives and customer choice activity reinforces the elasticity conclusions made in the FTC study as well. As shown in the charts attached to this letter, the alternatives available to long distance customers in the business market are significant and the level of customer choice being exercised is demonstrative of a competitive, demand elastic market.

Attachment 1 lists the services available from AT&T, MCI, Sprint, LDDS, RCI, LCI, Allnet, and others that offer price discounts. This group of competitors is only a sample of the alternatives available to business customers and does not include other competitors that may be smaller, but stronger on a regional market basis.

This sample includes competitors large enough to appear on the Industry Analysis Division's report that lists long distance carriers with revenues in excess of $100 million.[7] Clearly, the availability of these choices and alternatives for customers provides the competitive environment the Commission has previously found to be sufficient for it to relax its regulatory role when " ...the costs and burdens associated with detailed advance tariff review procedures for such services outweigh their benefits to the public."[8]

While having competitive alternatives available demonstrates the opportunity for customer choice in selecting service providers, further evidence of the competitiveness of the market is demonstrated by the willingness and ability of customers to actually exercise that choice.
Attachment 2 provides a recent sample of the velocity of choice exercised by customers in this market by illustrating the customer movement AT&T has experienced over the past year for customers of its Commercial Long Distance service.

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[5]Docket 90-132 Order, para. 37.

[6]Federal Trade Commission comments in FCC Docket 93-197, filed October 25, 1993, including "Market Power in Long Distance Telecommunications" by Michael R. Ward.

[7]"Long Distance Market Shares", P. 7, July, 1994, Industry Analysis Division.

[8]Docket 90-132 Order, para. 8.

The chart shows the number of customers that changed their service with AT&T to an alternative calling plan -- such as AT&T Plan Q, which provides discounts at usage levels as low as five dollars. It also indicates the aggregate number of customers that changed carriers, either disconnecting service from AT&T and moving to another carrier (outPICs) or moving from another carrier to AT&T (acquisitions). The total order activity has exceeded 150,000 in each of the last four months; such a large number of customers freely exercising their choices clearly demonstrates and supports the competitiveness and demand elasticity of this market.

The Commission has already found in the Docket 90-132 Order that unnecessary regulations "distort the competitive process" in several ways:

- "they deny AT&T the full pricing flexibility needed to react to market conditions and customer demands and thereby diminish its ability to compete as a full-fledged competitor;"

- "by creating regulatory delays and uncertainty, they reduce the value of AT&T's service offerings;"

- "by affording AT&T's competitors as much as ninety days advance notice (more if the tariff is suspended) of AT&T price and service changes, they foster a reactive market rather than a proactive one, and reduce incentives for AT&T's competitors to 'stay on their competitive toes'"; and

- "by negating, in whole or in part, AT&T's ability to take advantage, as its competitors can, of being a 'first-mover' in the market, they lessen AT&T's incentive to initiate pro-consumer price and service changes."[9]

While all of AT&T's services should be afforded streamlined treatment, the Commission has already determined in CC Docket 90-132 that the market is sufficiently competitive for AT&T's business services to be afforded streamlined regulation. The information in this letter, the data previously provided through AT&T's petition for a waiver of price cap regulation filed September 1992, and AT&T's Comments and Reply Comments in this docket, fully support the Commission's previous decision on the competitiveness of the business segment and an affirmative decision to finish the job by streamlining the remaining business services in Basket 1.

Very truly yours,

Attachments

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[9]Docket 90-132 Order, para. 80.

Attachment 1

COMMERCIAL LONG DISTANCE ALTERNATIVE SERVICES

CARRIER/SERVICE	REVENUE THRESHOLD
AT&T	
COMMERCIAL LONG DISTANCE	$0.00
SMALL BUS. OPTION	$22.50
PLAN Q	$5.00
PRO WATS	$5.00
MCI	
PRISM PLUS	$0.00
PREFERRED	$5.00
FRIENDS OF THE FIRM	$0.00
SPRINT	
THE MOST FOR BUSINESS	$5.00
CLARITY (BUSINESS CLOUT)	$0.00
ALLNET	
PACESETTER	$0.00
PACESETTER PLUS	$50.00
SOLUTION II	$30.00
SOLUTION III	$0.00
C&W	
LONGER DISTANCE	$0.00
FOCUS	$0.00
FOCUS II	$0.00
FOCUS III	$0.00
LCI	
AMERICA PLUS	$5.00
LDDS	
INTERSTATE DOMESTIC TELECOM SVC	$0.00
EASY ANSWER	$0.00
RCI	
FRONTRUNNER	$0.00
FRONTRUNNER OPTION I	$0.00
FRONTRUNNER OPTION II	$0.00
PRIME PLUS	$10.00

NOTE: SOME BASIC SCHEDULE SERVICES MAY NOT BE LISTED ABOVE, BUT ARE ALSO AVAILABLE

COMMERCIAL LONG DISTANCE
TOTAL MONTHLY CUSTOMER ACTIVITY